

# Agency Says Reagan Budget Misses Deficit Limit

By JONATHAN FUERBRINGER  
Special to The New York Times

WASHINGTON, Feb. 26 — Asserting that the White House has significantly underestimated military spending in its 1987 budget, the Congressional Budget Office said today that President Reagan's spending plan was \$13.7 billion over the deficit ceiling of \$14 billion.

At the same time, Senator Pete V. Domenici, the chairman of the Senate Budget Committee, said that most Senate committees had reacted negatively to the President's proposals to eliminate programs, impose user fees, sell Government assets and put Government functions in private hands, which make up the core of Mr. Reagan's effort to meet the ceiling set in the new budget-balancing law.

"The response has been very weak," Mr. Domenici, a New Mexico Republican, said. "Based on the Congressional agency's estimate, Mr. Reagan would have to propose \$10 billion more in savings to reach the statutory 1987 deficit ceiling of \$14 billion while retaining his requested increase in the military budget, 8 percent on top of an increase to make up for inflation. The extra savings is regarded as politically difficult to achieve in a Congress that failed to agree in 1985 on an omnibus deficit-reducing bill."

The chief reason for the difference in the 1987 deficit projections of the

C.B.O. and the Administration is the Congressional agency's estimate for the cost of Mr. Reagan's proposed military budget, which is \$14.5 billion higher than the Administration's.

The spending figure is an estimate, not a firm figure, because disbursements in any one year come partly from that year's appropriation and partly from earlier appropriations, because military spending is influenced also by events beyond the Government's control, like the rate of delivery by contractors and the price of fuel.

Senator Domenici has cited the higher Congressional estimate of military spending to argue that a tax increase would be necessary if Congress is to approve all of the President's military budget. Mr. Reagan opposes a tax increase.

Administration officials have contended their projection for the military budget are correct. "As we expressed in our letter to the House Budget Committee we continue to stand by our estimate of defense spending," said Edwin L. Dale Jr., spokesman for the White House Office of Management and Budget.

The Congressional Budget Office also estimated that for the next five years cumulatively, the President's deficits are understated by a total of \$15.9 billion. Instead of a small surplus in 1991, the agency estimated that Mr. Reagan's projected budget will

have a deficit of \$40.1 billion, not the zero required under the budget-balancing law.

The Congressional office accounts for the differences with higher military spending estimates, and slightly less optimistic economic assumptions, including estimates of higher interest rates.

The Congressional report also revised an earlier estimate of the budgetary effect of the Administration's proposed sale of the Consolidated Rail Corporation for \$1.2 billion to Norfolk Southern Corporation.

Last June, the budget office estimated the Federal Government would gain \$200 million from 1987 to 1990 through the sale. Today, it projected a \$250 million loss.

The revision reflected a lower estimate of the freight line's value at the time of the sale, higher estimates of the tax savings to Norfolk Southern, or tax loss to the Treasury, and lost dividend and interest payments to the Government on its present 55 percent ownership of the rail line.

The report of the budget office, a non-partisan agency, was presented by its director, Rudolph G. Penner, before the Senate Appropriations Committee.

While differences between the Administration and the Congressional office on spending estimates and economic assumptions have occurred every year, under the new budget-balancing law they are crucial.



Representative Jim Wright

Under the law, the Office of Management and Budget and the Congressional office make the initial estimates of the 1987 deficit. If their estimates differ, a middle figure is used to estimate the deficit. If that figure is more than \$10 billion above the \$14 billion ceiling, the automatic spending cuts included in the law are triggered. The difference at this point, \$15.7 billion, if split down the middle, is nearly \$8 billion, just within the \$10 billion limit.

## DEMOCRATS ATTACK COSTS OF BUILDUP

Response to Reagan Speech  
Links Military Spending to  
Need for Tax Increase

Special to The New York Times

WASHINGTON, Feb. 26 — Representative Jim Wright, Democrat of Texas, the House majority leader, said this evening that it would be impossible to continue President Reagan's proposed military buildup and balance the budget unless there was a tax increase.

Mr. Wright's remarks were prepared as a response to Mr. Reagan's nationally televised speech on the military budget this evening.

Mr. Wright also said the President's insistence on cutting many important domestic programs, including education and Medicare, to pay for the military budget increases he wants is "a misplaced priority."

Positions on Taxes

Mr. Wright did not advocate a tax increase in his talk. He and other Democratic leaders have argued they would not support an increase in taxes unless it were proposed by President Reagan.

Mr. Reagan also opposes any tax increase to reduce the deficit.

But some Republicans in the Senate, including Pete V. Domenici of New Mexico, chairman of the Budget Committee, are arguing that a tax increase will be necessary if the President wants to get his proposed 8 percent increase in the 1987 Pentagon budget on top of a rise to make up for inflation.

Mr. Wright said that approving the President's military budget request "would mean spending almost four times as much on the military by the end of the decade as was being spent at the height of the Vietnam war."

"Frankly, it just simply isn't possible to do this and rule out any new revenues and balance the budget," he said in the prepared text. "Republican leaders know that."

Domestic Cuts Protested

Since the President began pushing his military buildup in 1981, many Democrats have argued that it has been paid for partly by cutting important domestic programs that are also important to the country's future.

Mr. Wright echoed this argument, saying, "The American people know, too, that real national security depends on certain other things equally as important to the country's future as armaments and weapons."

"It depends first of all on education," he added, "the brain power of our citizenry."

But Mr. Wright said, the President's budget proposes eliminating the GI Bill for Vietnam veterans and cutting student loan and work-study programs.

"We think that is a misplaced priority," he said.

Mr. Wright, in a reference to President Reagan's request for \$100 million in military and non-military aid to the rebels fighting the government in Nicaragua, said the United States is powerful enough to overthrow the government.

But he said it would cost "a lot more than \$100 million and a precious lot of bloodshed but we could do it."

He added: "But what then? The problems of Latin America would still be with us — problems of illiteracy and malnutrition, and disease, the problems of joblessness. We would need, however, oppose the President's request."

It depends first of all on education — the brain power of our citizenry. Three years ago, the President's Commission on Education reported on what it called "A Nation at Risk." It said, "If an unfriendly power had attempted to impose on America the mediocre educational performance that exists today, we might well have viewed it as an act of war."

And yet, three years later, the President's budget asks that we zero out the G.I. Bill for our Vietnam veterans and that we cut student loans and work-study grants, which make it possible for young Americans of modest means to get an education. We think that is a misplaced priority.

Problems of Latin America  
We worry about Communism, but we don't seem to worry about the conditions that breed Communism.

Oh, surely, we are big enough and powerful enough that we could physically overthrow the government in Nicaragua, or the one in Havana, if that should be necessary. It would cost a lot more than \$100 million and a precious lot of bloodshed, but we could do it.

Yes, but what then? The problems of Latin America would still be with us — problems of illiteracy and malnutrition and disease, the problems of joblessness and a bondage of debt that amounts almost to servitude and a growing sense of hopeless disillusionment with society.

In the last century, patriots like Bolivar and San Martin patterned their popular people's movements after us. We were the inspiration and the example, and we have a residue of good will if we build upon it.

If we would respect the respect of our neighbors to the south, we'll have to cultivate a sustained interest in them and their very real problems, not just that of a fire engine which rushes in to put out a fire and departs as swiftly to ignore the combustibles that lie everywhere upon the tattered landscape of a civilization cruelly battered by a history of neglect.

They have a saying south of the border: "El manero a tener amigos es ser amigo" — the way to have a friend is to be a friend. In seeking a victory for Latin America, that may be the best place to start.

Colorful  
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## Reagan Urges Public to Support Military Buildup, Saying Cuts Pose Threat to U.S.

Continued From Page 1

tary spending in its 1987 budget, so that total spending would be \$15.7 billion above the deficit ceiling set in the new budget-balancing law. [Page A20.]

Mr. Reagan's remarks were significant in establishing a stern tone for the Soviet-American relations. After a period of warmer relations since last November's Geneva summit, the Soviet leader, Mikhail S. Gorbachev, spoke harshly this week of Mr. Reagan and United States aims, and tonight Mr. Reagan outlined an equally harsh view of the Soviet Union.

Members of Congress have asserted that the spending target is unrealistic at a time when the President is also seeking major cuts in nonmilitary spending to comply with the new law designed to balance the budget by 1991.

Using strong language to argue against any reductions in his military buildup, Mr. Reagan told the nation that it would be "reckless, dangerous and wrong."

"It's backsliding of the most irresponsible kind, and you need to know about it," he said.

Not Stronger Than Soviet  
Mr. Reagan said the nation was stronger militarily now than it was when he took office in 1981, but he said that a spending increase was nonetheless essential.

"Millions of Americans actually believe we are now superior to the Soviet Union in military power," he said. "Well, I'm sorry, but if our country is going to have a useful debate on national security, we have to get beyond the drumbeat of propaganda and get the facts on the table."

In a stern warning about Soviet aims, Mr. Reagan said that the Soviet Union has invested \$500 billion more in its military than the United States since 1970 and had built nearly three times as many strategic missiles. Thus, he said, "major military imbalances" exist between the two countries.

But beyond the Soviet arsenal, Mr. Reagan said that the United States also had to be concerned about the history of Soviet behavior.

"The record of Soviet brutality toward those who are weaker — reminds us that the only guarantee of peace and freedom is our military strength and our national will," he said. "The peoples of Afghanistan and Poland, of Czechoslovakia and Cuba and so many other captive countries, they understand this."

PRESIDENT MEETS WITH NEW INSTITUTE FOR PEACE President Reagan talking with the institute's director, Arthur Schlesinger Jr., chairman of the U.S. Institute for Peace. Also at meeting in Cabinet Room was Kenneth L.

Linking his proposal to the ongoing arms control talks in Geneva, Mr. Reagan said, "Now that the Soviets are not only protesting a Soviet unilateral withdrawal from the program that could one day free us all from the prison of nuclear terror. It would be pure folly for the United States not to press forward with S.D.I. when the Soviet Union has already invested up to 20 years of their own program. Let us not forget that the only operational missile defense in the world today guards the capital of the Soviet Union, not the United States."

These are the practical decisions we make when we send a defense budget to Congress. Each generation has to live with the challenge of nuclear weapons. And we can't cope with these challenges by evasion.

We want to make this a more peaceful world. We want to reduce arms. We want agreements that truly diminish the nuclear danger. We want real peace, with no cheating. We want an end to state policies of intimidation, threats and the constant quest for domination. We want real peace.

I will never ask for what isn't needed; I will never fight for what isn't necessary. But I need your help.

We've come so far together these last five years; let's not falter now. Let's maintain that crucial level of national strength, unity and purpose that has brought the Soviet Union to the negotiating table and has given us this historic opportunity to achieve real reductions in nuclear weapons and a real chance at lasting peace. That would be the finest legacy we could leave behind — for our children and for their children.

Wright Response  
Democrats have supported a strong defense and always will. There are times when the President can speak for all in the councils of the world, and when he does we want him to succeed.

We have cheered him on as he went to the summit with Gorbachev. We have supported his position in the Philippines. We oppose military dictatorship and the suppression of political liberties anywhere in our hemisphere, whether it be in Nicaragua or Chile.

We do have some very fundamental differences of Congress have done. By banning any U.S. tests on an antineutrino system, Congress not only protected a Soviet nuclear monopoly, it granted the Soviets a concession they could not win at the bargaining table.

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## Excerpts From Reagan Speech on Military Budget and Wright Response

WASHINGTON, Feb. 26 — Following are excerpts from the prepared texts of a speech on military spending by President Reagan tonight and a response by Representative Jim Wright of Texas, the House majority leader.

### Reagan Speech

My fellow Americans, I want to speak to you this evening about my highest duty as President — to preserve peace and defend these United States.

Before I do, let me take a moment to speak about the situation in the Philippines. We've just seen a stirring demonstration of what men and women committed to democratic ideas can achieve. The remarkable people of those 7,000 islands joined together with faith in the same principles on which America was founded — that men and women have the right to freely choose their own destiny. Despite a flawed election, the Filipino people were understood. They carried their message peacefully, and they were heard across their country and across the world.

We salute the remarkable restraint shown by both sides, to prevent bloodshed during these last tense days. Our hearts and hands are with President Aquino and her new government as they set out to meet the challenges ahead. Today the Filipino people celebrate the triumph of democracy and the world celebrates with them.

Tonight, the security program that you and I launched to restore America's strength is in jeopardy, threatened by those who would quit before the job is done. Any slackening now would invite the very dangers America must avoid, and could fatally compromise our negotiating position.

Our adversaries, the Soviets — we know from painful experience — respect only nations that negotiate from a position of strength. American power is the indispensable element of a peaceful world; it is America's last, best hope of negotiating real reductions in nuclear arms. Just as we are sitting down at the bargaining table with the Soviet Union, let's not throw America's trump card away.

Our defense problems five years ago were immense, and drastic action was required. Even my predecessor in this office recognized that and projected sizeable increases in defense spending, and I'm proud of what

we've done. Now the biggest increases in defense spending are behind us. That's why, last summer, I agreed with Congress to freeze defense funding for one year, and after that to resume a modest 3 percent annual growth. Frankly, I hesitated to reach this agreement on a freeze because we will have far too much to do. But I thought that Congressional support for steady increases over several years was a step forward.

But this didn't happen. Instead of a freeze, there was a sharp cut — a cut of over 5 percent. And some are now saying that we need another 20, 30 even 50 billion dollars out of national defense.

This is reckless, dangerous and wrong. It's backsliding of the most irresponsible kind, and you need to know about it. You, after all, paid the bill for all we've accomplished these past five years. But we will have a way to go. Millions of Americans actually believe we are now superior to the Soviet Union in military power.

Over the next few months, you'll be hearing this debate. I'd like you to keep in mind the two simple reasons not to cut defense now. One, it's not cheap. Two, it's not safe. If we listen to those who would abandon our defense program, we will not only jeopardize negotiations with the Soviet Union, we may put peace itself at risk.

Arbitrary cuts only bring proxy savings, but there's a more important reason not to abandon our defense program. It's not safe. As a consequence of their enormous weapons investment, major military imbalances still exist between our two countries.

Today, the Soviet Union has deployed over one-and-a-half times as many combat aircraft as the United States, over two-and-a-half times as many submarines, over five times as many tanks and over 11 times as many artillery pieces.

We have begun to close some of these gaps, but if we are to regain our margins of safety, more must be done.

Some argue that our dialogue with the Soviets means we can treat defense more casually. Nothing could be further from the truth. We were so serious about defense that created the climate in which serious talks could finally begin.

Now that the Soviets are back at the table, we must not undercut our negotiators. Unfortunately, that's exactly what some members

of Congress have done. By banning any U.S. tests on an antineutrino system, Congress not only protected a Soviet nuclear monopoly, it granted the Soviets a concession they could not win at the bargaining table.

You've heard me talk about our Strategic Defense Initiative, the program that could one day free us all from the prison of nuclear terror. It would be pure folly for the United States not to press forward with S.D.I. when the Soviet Union has already invested up to 20 years of their own program. Let us not forget that the only operational missile defense in the world today guards the capital of the Soviet Union, not the United States.

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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

February 26, 1966

ADDRESS BY THE PRESIDENT  
TO THE NATION

The Oval Office

8:00 P.M. EST

**THE PRESIDENT:** My fellow Americans, I want to speak to you this evening about my highest duty as President -- to preserve peace and defend these United States.

But before I do, let me take a moment to speak about the situation in the Philippines. We've just seen a stirring demonstration of what men and women committed to democratic ideas can achieve. The remarkable people of those 7,000 islands joined together with faith in the same principles on which America was founded -- that men and women have the right to freely choose their own destiny. Despite a flawed election, the Filipino people were understood. They carried their message peacefully, and they were heard across their country and across the world.

We salute the remarkable restraint shown by both sides to prevent bloodshed during these last tense days. Our hearts and hands are with President Aquino and her new government as they set out to meet the challenges ahead. Today the Filipino people celebrate the triumph of democracy and the world celebrates with them.

One cannot sit in this office reviewing intelligence on the military threat we face, making decisions from arms control to Libya to the Philippines, without having that concern for America's security weigh constantly on your mind.

We know that peace is the condition under which mankind was meant to flourish. Yet, peace does not exist of its own will. It depends on us -- on our courage to build it and guard it and pass it on to future generations. George Washington's words may seem hard and cold today, but history has proven him right again and again: "To be prepared for war," he said, "is one of the most effective means of preserving peace." Well, to those who think strength provokes conflict, Will Rogers had his own answer. He said of the world heavyweight champion of his day: "I've never seen anyone insult Jack Dempsey."

The past five years have shown that American strength is once again a sheltering arm for freedom in a dangerous world. Strength is the most persuasive argument we have to convince our adversaries to negotiate seriously and to cease bullying other nations.

But tonight the security program that you and I launched to restore America's strength is in jeopardy -- threatened by those who would quit before the job is done. Any slackening now would invite the very dangers America must avoid -- and could fatally compromise our negotiating position. Our adversaries, the Soviets -- we know from painful experience -- respect only nations that negotiate from a position of strength. American power is the indispensable element of a peaceful world -- it is America's last, best hope of negotiating real reductions in nuclear arms. Just as we are sitting down at the bargaining table with the Soviet Union, let's not throw America's trump card away.

MORE

We need to remember where America was five years ago. We need to recall the atmosphere of that time -- the anxiety that events were out of control, that the West was in decline, that our enemies were on the march.

It was not just the Iranian hostage crisis or the Soviet invasion of Afghanistan, but the fear -- felt by many of our friends -- that America could not, or would not, keep her commitments. Pakistan, the country most threatened by the Afghan invasion, ridiculed the first offer of American aid as "peanuts." Other nations were saying that it was dangerous -- deadly dangerous -- to be a friend of the United States.

It was not just years of declining defense spending, but a crisis in recruitment and retention and the outright cancellation of programs vital to our security. The Pentagon horror stories at the time were about ships that couldn't sail, planes that couldn't fly for lack of spare parts, and army divisions unprepared to fight.

And it was not just a one-sided arms agreement that made it easy for one side to cheat, but a treaty that actually permitted increases in nuclear arsenals. Even supporters of SALT II were demoralized saying, well, the Soviets just won't agree to anything better. And when President Carter had to abandon the treaty because Senate leaders of his own party wouldn't support it, the United States was left without a national strategy for control of nuclear weapons.

We knew immediate changes had to be made. So here's what we did: We set out to show that the long string of governments falling under Communist domination was going to end; and we're doing it.

In the 1970's, one strategic country after another fell under the domination of the Soviet Union. The fall of Laos, Cambodia, and South Vietnam gave the Soviet Union a strategic position on the South China Sea. The invasion of Afghanistan cut nearly in half Soviet flying time to the Persian Gulf. Communist takeovers in South Yemen and Ethiopia put the Soviets astride the Red Sea, entryway to the Suez Canal. Pro-Soviet regimes in Mozambique and Angola strengthened the Soviet position in southern Africa. And finally, Grenada and Nicaragua gave Moscow two new beachheads right on the doorstep of the United States.

In these last 5 years, not one square inch of territory has been lost, and Grenada has been set free.

When we arrived in 1981, guerrillas in El Salvador had launched what they called their "final offensive" to make that nation the second communist state on the mainland of North America. Many people said the situation was hopeless; they refused to help. We didn't agree; we did help. Today those guerrillas are in retreat. El Salvador is a democracy and freedom fighters are challenging communist regimes in Nicaragua, Afghanistan, Angola, Cambodia, and Ethiopia.

We set out to show that the Western alliance could meet its security needs, despite Soviet intimidation. And we're doing it. Many said that to try to counter the Soviet SS-20 missiles would split NATO because Europe no longer believed in defending itself. Well, that was nonsense. Today, Pershing and cruise missile deployments are on schedule, and our allies support the decision.

We set out to reverse the decline in morale in our Armed Forces. And we're doing it. Pride in our Armed Forces has been restored. More qualified men and women want to join -- and remain in -- the military. In 1980, about half of our Army's recruits were high school graduates; last year, 91 percent had high school diplomas.

Our Armed Forces may be smaller in size than in the 1950's, but they're some of the finest young people this country has ever produced. And as long as I'm President, they'll get the quality equipment they need to carry out their mission.

We set out to narrow the growing gaps in our strategic deterrent. And we're beginning to do that. Our modernization program -- the MX, the Trident submarine, the B-1 and Stealth bombers -- represents the first significant improvement in America's strategic deterrent in 20 years.

Those who speak so often about the so-called arms race ignore a central fact: In the decade before 1981, the Soviets were the only ones racing.

During my 1980 campaign, I called federal waste and fraud a national scandal. We knew we could never rebuild America's strength without first controlling the exploding cost of defense programs. And we're doing it.

When we took office in 1981, costs had been escalating at an annual rate of 14 percent. Then we began our reforms. And in the last two years, cost increases have fallen to less than one percent.

We've made huge savings. Each F-15 fighter costs nearly \$4 million less today than in 1981. One of our air-to-air missiles costs barely half as much.

Getting control of the defense bureaucracy is no small task.

Each year the Defense Department signs hundreds of thousands of contracts. So, yes, a horror story will sometimes turn up despite our best efforts. That's why we appointed the first Inspector General in the history of the Defense Department -- and virtually every case of fraud or abuse has been uncovered by our Defense Department, our Inspector General. Secretary Weinberger should be praised, not pilloried, for cleaning the skeletons out of the closet. As for those few who have cheated taxpayers, or have swindled our Armed Forces with faulty equipment, they are thieves stealing from the arsenal of democracy -- and they will be prosecuted to the fullest extent of the law.

Finally, we've set out to reduce the danger of nuclear war. Here, too, we're achieving what some said couldn't be done. We've put forth a plan for deep reductions in nuclear systems; we're pushing forward our highly promising Strategic Defense Initiative -- a security shield that may one day protect us and our allies from nuclear attack, whether launched by deliberate calculation, freak accident, or the isolated impulse of a madman. Isn't it better to use our talents and technology to build systems that destroy missiles, not people?

MORE

Our message has gotten through. The Soviets used to contend that real reductions in nuclear missiles were out of the question. Now, they say they accept the idea. Well, we shall see. Just this week, our negotiators presented a new plan for the elimination of intermediate-range nuclear missiles, and we're pressing the Soviets for cuts in other offensive forces as well. One thing is certain: If the Soviets truly want fair and verifiable agreements that reduce nuclear forces, we will have those agreements.

Our defense programs five years ago were insane, and drastic action was required. Even my predecessor in this office recognized that and projected sizeable increases in defense spending -- and I'm proud of what we've done.

Now the biggest increases in defense spending are behind us. And that's why, last summer, I agreed with Congress to freeze defense funding for one year, and after that to resume a modest three-percent annual growth. Frankly, I hesitated to reach this agreement on a freeze because we still have far too much to do. But I thought that Congressional support for steady increases over several years was a step forward.

But this didn't happen. Instead of a freeze, there was a sharp cut -- a cut of over five percent. And some are now saying that we need to chop another 20, 30, or even \$50 billion out of national defense.

This is reckless, dangerous, and wrong. It's backsliding of the most irresponsible kind, and you need to know about it. You, after all, paid the bill for all we've accomplished these past five years. But we still have a way to go. Millions of Americans actually believe that we are now superior to the Soviet Union in military power. Well, I'm sorry, but if our country's going to have a useful debate on national security, we have to get beyond the drudgery of propaganda and get the facts on the table.

Over the next few months, you'll be hearing this debate. I'd like you to keep in mind the two simple reasons not to cut defense now. One, it's not cheap. Two, it's not safe. If we listen to those who would abandon our defense program, we will not only jeopardize negotiations with the Soviet Union -- we may put peace itself at risk.

I said it wouldn't be cheap to cut. How can cutting not be cheap? Well, simple. We tried that in the seventies and the result was waste, enormous waste -- hundreds of millions of dollars lost because the cost of each plane and tank and ship went up, often, way up. The old shoppers' adage proved true -- they are cheaper by the dozen.

Arbitrary cuts only bring phony savings, but there's a more important reason not to abandon our defense program. It's not safe.

Almost 25 years ago, when John Kennedy occupied this office during the Cuban missile crisis, he commanded the greatest military power on earth. Today, we Americans must live with a dangerous new reality. Year-in and year-out, at the expense of its own people, the Soviet leadership has been making a relentless effort to gain military superiority over the United States.

Between 1970 and 1985 alone, the Soviets invested \$500 billion more than the United States in defense -- and built nearly three times as many strategic missiles.

MORE

As a consequence of their enormous weapons investment, major military imbalances still exist between our two countries.

Today, the Soviet Union has deployed over one-and-a-half times as many combat aircraft as the United States, over two-and-a-half times as many submarines, over five times as many tanks and over eleven times as many artillery pieces.

We have begun to close some of these gaps, but if we're to regain our margins of safety, more must be done. Where the Soviets once relied on numbers alone, they now strive for both quantity and quality. We anticipate that over the next five years, they will deploy on the order of 40 nuclear submarines, 300 new ballistic missiles and 18,000 modern tanks. My five-year defense budget maintains our commitment to America's rebuilding program. And I'm grateful that Secretary Weinberger is here to fight for that program with all the determination and ability he has shown in the past.

But my budget does not call for matching these Soviet increases. So one question must be asked: Can we really afford to do less than what I've proposed?

Today, we spend a third less of our gross national product on defense than under John Kennedy, yet some in Congress talk of even deeper cuts. Barely six percent of our nation's gross national product -- that's all we invest to keep America free, secure and at peace. The Soviets invest more than twice as much. But now strip away spending on salaries, housing, dependents and the like and compare. The United States invests on actual weapons and research only 2.6 percent of our gross national product, while the Soviet Union invests 11 percent on weapons, more than four times as much. This is the hard, cold reality of our defense deficit.

But it's not just the immense Soviet arsenal that puts us on our guard. The record of Soviet behavior, the long history of Soviet brutality toward those who are weaker reminds us that the only guarantee of peace and freedom is our military strength and our national will. The peoples of Afghanistan and Poland, of Czechoslovakia and Cuba and so many other captive countries, they understand this.

Some argue that our dialogue with the Soviets means we can treat defense more casually. Nothing could be farther from the truth. It was our seriousness about defense that created the climate in which serious talks could finally begin.

Now that the Soviets are back at the table, we must not undercut our negotiators. Unfortunately, that's exactly what some members of Congress have done. By banning any U.S. tests of anti-satellite system, Congress not only protected a Soviet monopoly, it unilaterally granted the Soviets a concession they could not win at the bargaining table.

So our defense program must rest on these principles. First, we must be smart about what we build. We don't have to copy everything the Soviets do. We don't have to compete on Soviet terms. Our job is to provide for our security by using the strengths of our free society. If we think smart enough, we don't have to think quite so big. We don't have to do the job with large numbers and brute force.

NOISE

We don't have to increase the size of our forces from two million to their five million -- as long as our military men and women have the quality tools they need to keep the peace. We don't have to have as many tanks as the Soviets as long as we have sophisticated anti-tank weapons.

Innovation is our advantage. One example -- advances in making airplanes and cruise missiles almost invisible to Soviet radar could neutralize the vast air defense systems upon which the Soviets -- and some of their most dangerous client states -- depend.

But innovation is not enough. We have to follow through. Blueprints alone don't deter aggression. We have to translate our lead in the lab to a lead in the field. But when our budget is cut, we can't do either.

Second, our security assistance provides as much security for the dollar as our own defense budget. Our friends can perform many tasks more cheaply than we can. And that's why I can't understand proposals in Congress to sharply slash this vital tool. Military assistance to friends in strategic regions strengthens those who share our values and interests. And when they are strong, we're strengthened. It is in our interest to help them meet threats that could ultimately bring harm to us as well.

Third, where defense reform is needed, we will pursue it. The Packard Commission we created will be reporting in two days.

We hope they will have ideas for new approaches that give us even better ways to buy our weapons. We're eager for good ideas, for new ideas -- America's special genius. Wherever the Commission's recommendations point the way to greater executive effectiveness, I will implement them, even if they run counter to the will of the entrenched bureaucracies and special interests. I will also urge Congress to heed the Commission's report and to remove those obstacles to good management that Congress itself has created over the years.

The fourth element of our strategy for the future is to reduce America's dependence on nuclear weapons.

You've heard me talk about our Strategic Defense Initiative, the program that could one day free us all from the prison of nuclear terror. It would be pure folly for the United States not to press forward with SDI when the Soviets have already invested up to twenty years on their own program. Let us not forget that the only operational missile defense in the world today guards the capital of the Soviet Union -- not the United States.

But while SDI offers hope for the future, we have to consider today's world. For too long, we and our allies have permitted nuclear weapons to be a crutch, a way of not having to face up to real defense needs. We must free ourselves from that crutch. Our goal should be to deter, and if necessary, to repel any aggression without a resort to nuclear arms.

Here, again, technology can provide us with the means not only to respond to full-scale aggression, but to strike back at terrorists, without harming innocent civilians.

Today's technology makes it possible to destroy a tank column up to 120 miles away without using atomic weapons. This technology may be the first cost-effective conventional defense in post-war history against the giant Red Army. When we fail to equip our troops with these modernized systems, we only increase the risk that we may one day have to resort to nuclear weapons.

NOB2

These are the practical decisions we make when we send a defense budget to Congress. Each generation has to live with the challenges history delivers. And we can't cope with these challenges by evasion.

If we sustain our efforts now, we have the best chance in decades of building a secure peace. That's why I met with General Secretary Gorbachev last year, and that's why we're talking to the Soviets today, bargaining -- if Congress will support us -- from strength.

We want to make this a more peaceful world. We want to reduce arms. We want agreements that truly diminish the nuclear danger. We don't just want signing ceremonies and color photographs of leaders toasting each other with champagne. We want more. We want real agreements -- agreements that really work -- with no cheating. We want an end to state policies of intimidation, threats, and the constant quest for domination. We want real peace.

I will never ask for what isn't needed; I will never fight for what isn't necessary. But I need your help.

We've come so far together these last 5 years -- let's not falter now. Let's maintain that crucial level of national strength, unity, and purpose that has brought the Soviet Union to the negotiating table, and has given us this historic opportunity to achieve real reductions in nuclear weapons and a real chance at lasting peace. That would be the finest legacy we could leave behind -- for our children and for their children.

Thank you. God bless you and good night.

END

8:24 P.M. EST